# CHAPTER 18

# PUBLIC FUNDING OF SPORT: AN EXAMPLE FROM EUROPE

*John Considine*

## 18.1 INTRODUCTION

On balance, academic economists agree that there is little justification for public funding of profitable businesses. This idea is also reflected in EU law, whereby competition law is deemed to apply to any entity (including public bodies) that is engaged in economic activity on the market for a profit, and where the public funding of entities is subject to state aid rules. In these circumstances, sport should replenish rather than deplete the public purse. Sports economists are likely to view alternative arguments as ignorant of the sports economics literature or to be supported by non-peer-reviewed economic evaluation studies commissioned by vested interests.[1]

Is there a role for the public funding of sport outside the market setting? Virtually all economists would agree that there is, potentially, a role for the public funding of sport. There is a theoretical literature that supports such a role. Some sport could be viewed as having the characteristics of a public good, a merit good or a good with positive externalities.[2] Differences between economists are likely to emerge when it comes to the specific empirical cases for the public funding of sport. Economic evaluation studies are a fertile breeding ground for disagreement between economists, with claims about the overestimation of benefits and the underestimation of cost abounding. Two features of this disagreement are worth noting for the purposes of this chapter. First, economists who make their living by publishing in the academic journals are likely to disagree with economists who make their living by producing commissioned reports for public policy purposes. Second, among the academic economists, sports economists are more likely to question the case for public funding than some other economists, such as health economists or regional development economists. Explaining these two features is an important element of this chapter.

As might be expected from a chapter within a book on sports economics, the next section outlines the conventional wisdom on the public funding of sport as presented in the sports economics literature. It explains how the literature is likely to leave the reader with the

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

impression that there is too much public funding of sport. It is a product of the context in which sports economics developed and how the focus of the analysis is on the sports market. The following section outlines the economic perspective on the public funding of sport found in public policy settings. This section explains the role for government funding, particularly in a non-market setting. It combines the theoretical justifications that dominated economics in the middle third of the twentieth century. The last major section uses the public funding of sport in Ireland during the twenty-first century to illustrate the debate on the public funding of sport.

## 18.2 POTENTIAL FOR THE EXCESS PUBLIC FUNDING OF SPORT

Sports economics grew up in an intellectual environment in which government intervention was increasingly questioned. Early papers in what is now known as sports economics were published in the *Journal of Political Economy* (Rottenberg 1956) and the *Quarterly Journal of Economics* (Neale 1964). Those papers were published four years either side of Ronald Coase's paper on externalities (Coase, 1960). "The problem of social cost" is viewed as challenging, and at least partly overturning, the dominant view that government intervention was required to solve market failures. An economic approach to government emerged around the same time with *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Buchanan & Tullock 1962). The growing acceptance of the public choice approach, sometimes labelled government failure, reflected currents within the discipline. In 1986 one of the founders of the approach was awarded the Nobel Prize in Economics: James Buchanan. A range of books with a specialist treatment of sports economics were published during the 1990s, such as Quirk and Fort (1992), Scully (1995), Zimbalist and Noll (1997) and Szymanski and Kuypers (1999). These books drew on a variety of sports-related research that was being published in peer-reviewed journals. By the turn of the century even some traditional British journals were devoting special issues to the subject, such as the *Scottish Journal of Political Economy* (2000) and *Economic Journal* (2001). More importantly, the first issue of a journal devoted exclusively to sports economics was published: the *Journal of Sports Economics*.

The *JSE* was first published in 2000. Within a few years the first editions of the more popular textbooks arrived, such as Leeds and von Allmen (2002) and Fort (2003). Not surprisingly, there was a heavy emphasis on North American examples. In a special issue of the *Oxford Review of Economic Policy*, Baade (2003) relied exclusively on North American examples to illustrate the excessive public funding of sports facilities; although the paper is titled "Evaluating subsidies for professional sports in the United States and Europe: a public-sector primer", It simply reflected North American leadership in the area.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

Recognition of the growing importance and significance of sports economics came in 2015 when it was awarded a *Journal of Economic Literature* (*JEL*) code: Z2 Sports Economics. It is one of the latest additions to an American Economic Association classification system that started just over 100 years ago. The *JEL* system reflects US dominance of economics more generally.

A reading of the *JSE* and popular sports economics textbooks would lead one to believe that there is too much government funding in sport and, in particular, too much public funding devoted to sports facilities. For example, those seeking to host the Summer or Winter Olympics or FIFA World Cup must have a fiscal authority underwrite the venture and also provide a range of sporting infrastructure. Most textbooks devote a chapter to "mega events". It is important to note how those who hold, and extol, these views are viewed by their peers. The sentiment is captured by Stefan Szymanski: it is an image of economists protecting the public purse to the detriment of their private purse. On the plus side for these "hero-economists" is a greater acceptance of their views by their peers, peer reviewers of their work and, possibly, employment (thereby improving their private purse).

The idea of economists protecting the public purse extended to the idea of protecting the public in other ways. The dominant perspective on industrial organization was one of protecting the public from the concentration of economic power.[3] Analysis of private organizations leveraging their market power can also be applied to major league sports in North America, where the number of team franchises is lower than the number of cities wishing to host a team. One way of attracting such teams is to offer preferential fiscal treatment and a contribution to the capital costs of facilities. At least one chapter in the textbooks will be devoted to the public funding contribution to such facilities. This situation could be seen as a governance failure. This is what makes building a stadium for a major league team different from building a stadium to host the Olympics. Major league sports in North America do not allow freedom of entry in the way it happens in European sports leagues. Promotion and relegation are not a feature of major league sports. The leagues are effectively cartels, but with one important difference: they are legal. Almost 100 years ago the US Supreme Court decided there was no breach of antitrust laws. Many legal scholars argue that *Federal Baseball Club v National League* (1922) was a somewhat questionable judgement, but they will also argue that the failure to legislate differently in the meantime suggests that legislators are not unhappy (enough) with the judgement.

On the surface, Europe seems somewhat different. During the second half of the twentieth century increasing numbers of national government sought closer economic and political integration. These desires have been reflected in the principles enshrined in the sequence of treaties that have been agreed. Although market integration developed slowly, these principles produced radical changes in economic life, including in the economics of sport. For example, the principle of free movement of labour was central to the ruling in *UEFA v*

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

*Jean-Marc Bosman* (1995), which eased many contract restrictions on footballers. Within this ruling, it was noted how professional football was subject to EU competition law.

Writing at the turn of the century, Fort (2000) noted that antitrust was a wildcard in the distinctive development of North American and European sport. Three years later Szymanski (2003a) suggested that North America had the advantage of a more developed tradition in antitrust. It is difficult to make the case that this remains the situation. Whereas major league sports in the United States are exempt from antitrust legislation, European sports undertakings are subject to competition law. In Europe, undertakings are defined as entities that engage in economic activity supplied for profit on a market. Although this principle features in cases such as the Bosman ruling of 1995, it was established in *Meca-Medina* (2006) and confirmed in *MOTOE* (2008). There is no distinction between public or private undertakings. If there is a potential market for the good or service, then the undertaking that supplies the good or service is subject to competition law. These rules, combined with the European sports model involving promotion and relegation, mean that European cities do not come under the same pressure to fund sports as their US counterparts.

In principle, EU member states should also come under less pressure to fund sporting enterprises and major sporting events. Member state governments should be able to point to rules that limit such funding. Article 107 of the Treaty on the Functioning of the European Union (TFEU) deals with state aid; this is financial aid by whatever means – e.g. funding or taxation. In the last decade the European Union has instigated a number of high-profile cases against governments based on aid provided to Dutch and Spanish soccer clubs. The willingness to take these cases demonstrates a commitment to halt the public funding of sports undertakings that compete in European competitions. However, the outcomes of these cases, usually after appeal, suggests that the gap between Europe and the United States is not as large as one might be led to believe.

When it comes to large-scale sports infrastructure projects, there is evidence that there is a light-touch application of article 107. In some cases, it looks as if member state governments are actually trying to circumvent state aid rules (with possible help from EU authorities). The French justification for funding the redevelopment of stadia for the UEFA European Football Championship in 2016 is a case in point. Many of the French stadia had already been (re)developed for the FIFA World Cup in 1998. Although guidelines on the application of article 107 were revised in 2017, there remains evidence of a “blind eye” being turned to the enforcement (as will be discussed later).

To summarize, sports economists argue that there is excess public funding of large-scale infrastructure projects such as stadia. Mega-events contribute to this excessive public funding, when the owners of these events leverage their power to extract subsidies from fiscal authorities. A similar argument applies within North American major league sports, with the power of the leagues based on their exemption from antitrust law. On the surface,

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

public funding in Europe should be better protected by TFEU articles 101 to 108, combined with the promotion and relegation structure of sports leagues. However, ultimate competition case law outcomes and a light-touch application of state aid rules in relation to large-scale sports infrastructure suggests there is a bias towards excessive public funding of sport in this area.

One could argue that it is not truly excessive public funding. How could such inefficient policies persist? Is such public funding sanctioned by voters when they go to the polls? Research by Peter Groothuis considers such questions, in Groothuis, Johnson and Whitehead (2004) and Groothuis and Rotthoff (2016). Surveys of public opinion, and the revealed preference of the electorates in referenda on the public funding of stadia, suggest a variety of views on the extent to which sport should be funded through the public purse. Whether this allows politicians and policy-makers to indulge a preference for funding sport is an open question. The public choice literature provides a variety of potential reasons why politicians might have an expenditure bias but an explanation of an added bias towards sports funding per se is not a feature of that literature.

The next section examines those situations in which the public funding of sport receives some support in the economic literature and a little more support in the sports policy arena.

## 18.3 JUSTIFICATIONS FOR THE PUBLIC FUNDING OF SPORT

A step change in the organization and codification of sport occurred towards the end of the nineteenth century. Many sporting organizations identify their genesis to dates during this period, while also appealing to a history of their sport that is much earlier. A prime example is the modern Olympic Games, which first took place in Athens in 1896 under the direction of the International Olympic Committee (IOC). The IOC itself was established in 1894, and since then has promoted the 1896 Games as the rightful heir to games that took place, in approximately the same location, thousands of years earlier.

Economics was also being (re)organized and codified at the end of the nineteenth century. Alfred Marshall's *Principles of Economics* was first published in 1890. Just over a decade later economics became an undergraduate examination subject at Cambridge. A description of the examination topics is provided by Gay (1903: 494):

> Public finance and the economic functions of government are to receive especial attention in the three papers on General Economics; and questions dealing with the structure and problems of modern industry (including transportation), wages and conditions of employment, money, credit and prices, and international trade are to be scattered between the four papers on Advanced Economics.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

That public finance featured prominently is noteworthy. At this point in time public finance was limited to funding a minimal state. Charles Bastable's *Public Finance* (1903) was the required reading. Another noteworthy feature can be found in the composition of the committee that championed the introduction of economics. It included John Neville Keynes – the father of John Maynard Keynes. Maynard would come to change public finance radically. According to Buchanan and Wagner (1977), Bastable represented the "old-style fiscal religion" and Keynes represented the "new gospel". They claim that Keynesian economics gave politicians an intellectual framework onto which to hang their natural tendencies to spend. They have a point. The multiplier, so beloved by economists who are commissioned to make the case for the public funding of sport, is a Keynesian concept.

In 1936 John Maynard Keynes published *The General Theory of Employment, Interest and Money* (Keynes 1936). By this stage Arthur Pigou had succeeded Alfred Marshall as professor of economics at the University of Cambridge. Pigovian welfare economics provided a justification for microeconomic government expenditure (tax) to deal with positive (negative) externalities. Keynes provided a macroeconomic justification for government spending. The ideas in *The General Theory* stimulated a young American economist called Paul Samuelson. Samuelson popularized Keynesian ideas via his textbook on economics (Samuelson 1948). Samuelson (1954) also provided another economic concept that was used to justify government expenditure: the public good. Like goods with positive externalities, public goods are underprovided by the market. In both cases, the goods are underprovided because it is difficult to fully capture the benefits to these goods. Economic theory provided a justification for the government to fund activities such as sport if it was claimed that the activity was a public good or generated a positive externality. Of course, politicians did not always need the support of economic theory.

Market failure justifications for the public funding of sport survive to some extent in twenty-first-century textbooks on sports economics. One of the better illustrations of this can be found in *Sports Economics: Theory, Evidence and Policy* by Paul Downward, Alistair Dawson and Trudo Dejonghe (2015). Chapter 12 begins by setting out the objectives of the chapter. The first objective is "[t]o understand the economic rationale for public sector investment in sports events and infrastructure" (Downward, Dawson and Dejonghe 2015: 335). Later it is noted that, "while a coherent theoretical case can be made for public sector investment in sports, the evidence in support of this case is weak, and suggests considerable caution and planning is required to harness the spillover effects from the investment" (Downward, Dawson & Dejonghe 2015: 336). Although the authors say that the "evidence in support of this is weak", they could, equally, say that the evidence is plentiful, but the claims are often exaggerated. Economic evaluations of sport abound. Many are commissioned by vested interestsfor use in their interaction with policy-makers. Policy-makers also commission economic evaluations on which to base, or justify, sports policy. Nearly all these

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

evaluations, or all the evaluations that make it into the public domain, claim that governments get a positive return from their funding of sport.

It is in the world of sports policy that the arguments for the public funding of sport find most support. In the EU context, sport is viewed as serving a socializing and educational function. This perspective was presented in the 2007 Amsterdam Declaration that included the words "special consideration should be given to the particular characteristics of amateur sport". Such a perspective can also be found in the Treaty on the Functioning of the European Union. Title XII is education, vocational training, youth and sport. The details are specified in article 165, and relevant sections are reproduced in the textbox. Sport comes under the auspices of the Directorate General for Youth, Sport, Education and Culture (DG EAC). The most recent work plan of DG EAC was organized under three headings: integrity in sport; sport and society; and the economic dimension of sport. The latter was further subdivided into: the economic benefits; the legacy of major events; and the sustainable financing of sport.

1. […] The Union shall contribute to the promotion of European sporting issues, while taking account of the specific nature of sport, its structures based on voluntary activity and its social and educational function.
2. Union action shall be aimed at: … developing the European dimension in sport, by promoting fairness and openness in sporting competitions and cooperation between bodies responsible for sports, and by protecting the physical and moral integrity of sportsmen and sportswomen, especially the youngest sportsmen and sportswomen.
3. The Union and the Member States shall foster cooperation with third countries and the competent international organisations in the field of education and sport, in particular the Council of Europe. […]

The inclusion of the economic dimension of sport is instructive. Its three elements suggest that the TFEU is dealing with the economic elements of sport not covered by articles 101 to 108 (which deal with areas such as anti-competitive agreements and state aid). Each of these three elements seems designed to provide a justification for the public funding and regulation of sport. The legacy of major sporting events seems designed to justify government funding of such events. The sustainable financing of sport element seems designed to justify public funding of grassroots sport, as distinct from high-level sport, as the following quote states: "Public support measures in the field of sport generally finance either infrastructure or activities or individual sport clubs. In grassroots sport, equal opportunities and open access to sporting activities can only be guaranteed through strong public involvement" (Expert Group on Sustainable Financing of Sport 2012: 9). The report produces estimates of the distribution

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

of public and private funding of sport in the European Union, which are reproduced in Table 18.1.

**Table 18.1** Estimated distribution of spending on high-level and grassroots sport in the European Union, 2008

| | *Total (€ billion)* | *High-level (%)* | *Grassroots (%)* |
|---|---|---|---|
| Households contributions | 101 | 60 | 40 |
| Value of volunteering | 28.3 | 9.9 | 90.1 |
| Local authorities | 26 | 10 | 90 |
| National governments | 10.7 | 50.5 | 49.5 |
| Sponsorship and donations | 10.5 | 84.8 | 15.2 |
| Media rights | 5 | 90 | 10 |
| Lottery levies | 0.2 | 45 | 55 |
| **Total** | **181.7** | **46.7** | **53.3** |

*Source*: Expert Group on Sustainable Financing of Sport (2012).

There is a clear distinction between the national public funding of sport and local public funding of sport. Local authorities allocate 90 per cent of their funding to grassroots sport, whereas national funding is almost equally divided between grassroots sport and high-level sport – e.g. major sporting events. In terms of the economic dimensions of sport, to highlight one side of the calculus – i.e. the economic benefits – the European Union has funded work on sports satellite accounts that can extract the sports elements from the traditional system of national accounts framework. The latest publication from this work is *Study on the Economic Impact of Sport through Sport Satellite Accounts* (European Commission 2018). Using 2012 data, a range of multipliers are provided. GDP and employment multipliers are produced for each member state, and the United Kingdom, along with sectoral multipliers. The authors warn against combining these sports multipliers with the multipliers for other satellite accounts, such as tourism; combining the multiplier can result in an element of double-counting. The satellite accounts make the best case for sport by including elements that could, equally, be included elsewhere. Those elements are also included in the satellite accounts for other areas. Figure 18.1 presents the GDP and employment impact of sport in the member states and the United Kingdom.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

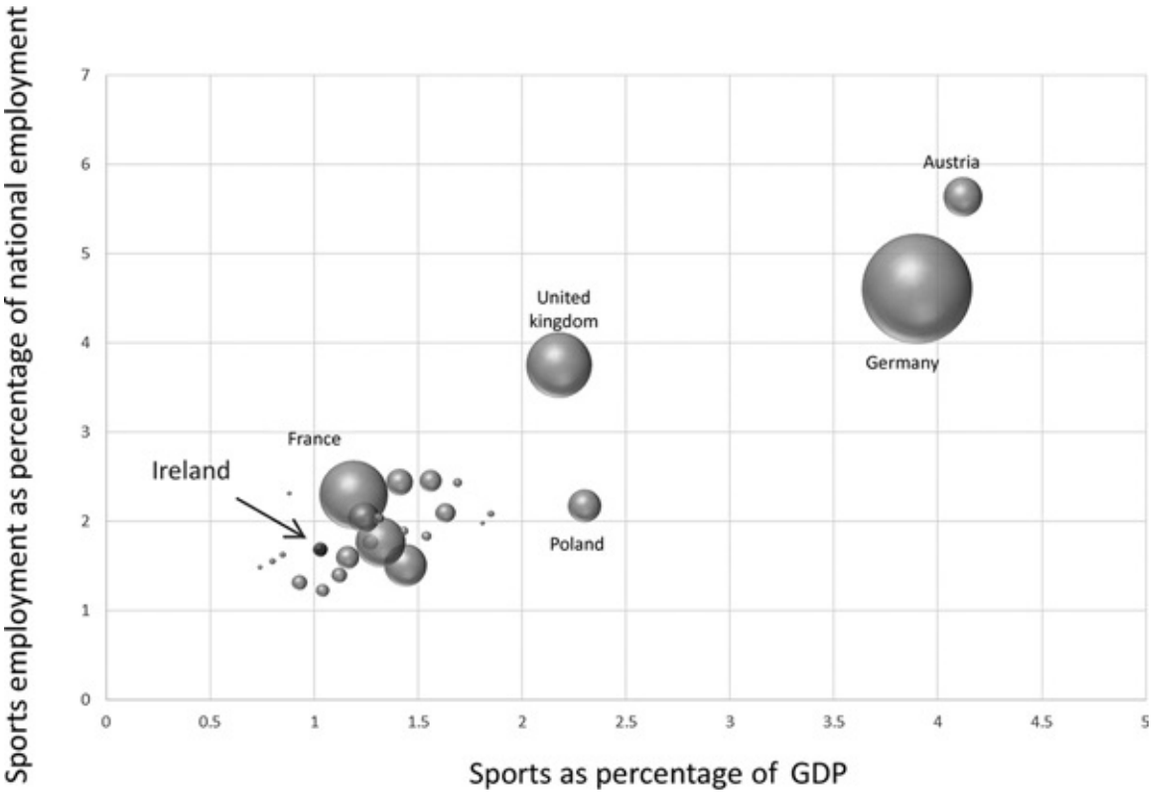


**Figure 18.1** Economic impact of sport in EU member states, 2012

*Source*: European Commission (2018).

In Figure 18.1, the size of each bubble represents that country's GDP. The German economy is the largest. In all economies, except Poland's, the employment impact is greater than the GDP impact. Sport has the largest impact in Austria, with a significant contribution coming from winter sports. In the case of Ireland, the employment impact is 1.68 and the GDP impact is 1.03 (a figure of 1.04 was produced by Delaney and Fahey 2005). These GDP figures raises serious questions about the figures produced in the Irish context, and these questions are discussed in the next section.

To summarize, there is a theoretical case for the public funding of sport. This is based on the market failure literature, which dominated economics in the middle third of the twentieth century. Economists argue over the existence of an empirical case for this funding. Academic economists tend to be less convinced that there is an empirical case and more likely to accept the case for public funding of facilities for public use rather than for mega-events. Economists working in a public policy setting are more likely to make the case for public funding. The case made by the latter group is strongest when it is made for the public funding of grassroots sport on the basis of social policy.

## 18.4 TWENTY-FIRST-CENTURY PUBLIC FUNDING OF SPORT IN IRELAND

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

Entering the twenty-first century, sport in Ireland benefited enormously from the fortuitous circumstances that existed at that time.[4] The Irish economy registered record growth rates that earned it the label of the "Celtic tiger". Economic growth was matched by growth in government revenue. Government expenditure grew almost as rapidly as revenue. The annual public finances were in surplus and the ratio of public debt to GDP fell sharply because of the growth in the denominator. Figure 18.2 presents the nominal values of GDP, general government revenue and general government expenditure for the period 1995 to 2007. GDP increased by an annual average of 11.25 per cent over the period. Revenue and expenditure grew by annualized rates of 10.64 per cent and 10.10 per cent, respectively. A fiscal deficit in 1995 and 1996 became a surplus in 1997. The government finances remained in surplus each year until 2007, with the exception of 2002.

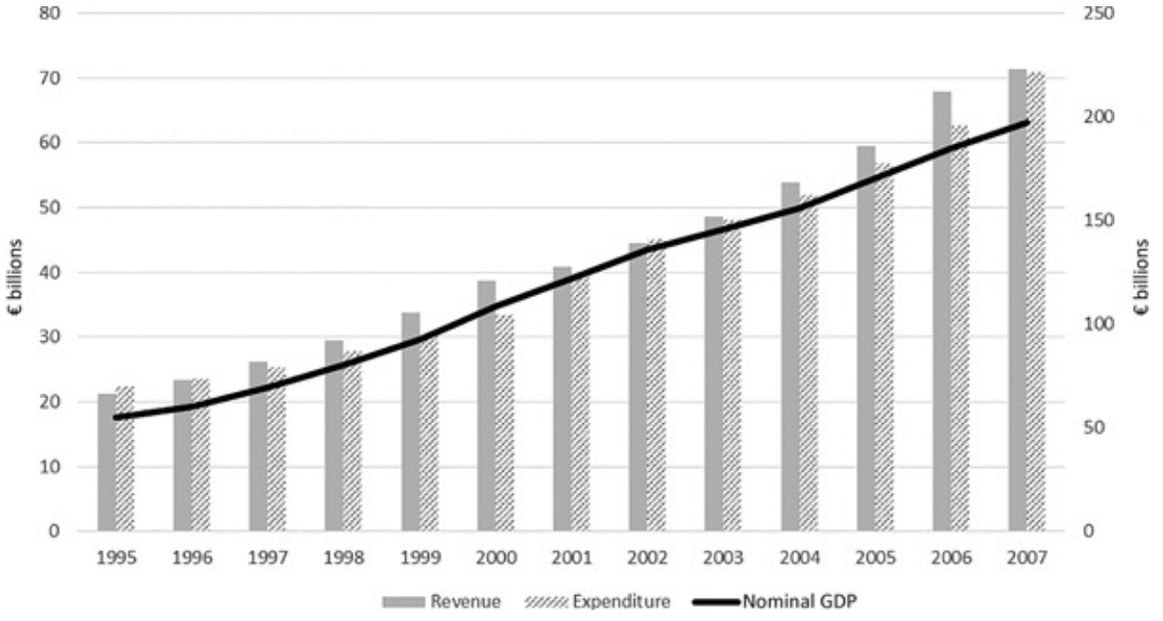


**Figure 18.2** Gross domestic product, general government revenue and expenditure, Ireland, 1995–2007 (€ billions)

*Source*: Central Statistics Office, Ireland. GDP is taken from table 5 of the National Income and Expenditure Accounts; general government revenue and expenditure are taken from Government Financial Statistics.

At the time, the debate centred on how to spend the surpluses – although this was not a debate limited to Ireland (Lane 1999; Alesina 2000). Sport was well placed to benefit from the government's desire to spend the fruits of economic growth. In 1997 sport was included in the title of a government department for the first time. New political responsibilities have to be funded to convey political seriousness. The need for investment in sport and recreational facilities was highlighted by Fitz Gerald *et al*. (1999). Although their study was primarily focused on public good and positive externality justifications for public funding, the discussion around sport suggested a merit good argument. The authors drew attention to the inability of some sections of the community to pay for sports club membership as a

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

justification for public funding.

Within two years of getting represented at the executive level of Irish government, the day-to-day administration of Irish sport by central government was devolved to a newly established Irish Sports Council (ISC). The devolution was underpinned by the Irish Sport Council Act, 1999. The ISC was tasked with channelling government funding through the national government bodies. Although ISC funding was relatively small in many cases, and interventions relatively few, it proved crucial in leveraging positive change in many of these national governing bodies. The funding of sports capital facilities remained within the Department of Sport. The decisions surrounding the allocation of sports capital funding attracted considerable controversy during the early years of the new century.

### 18.4.1 Facilities and mega-events

At the start of the century the government envisaged a centre for national sport at Abbotstown in Dublin. The centrepiece of the project was to be an 80,000-seat stadium. Almost immediately questions were asked about the demand for such a stadium. Less than 10 km away from the proposed new stadium was another stadium with the same capacity: Croke Park, the home of the Gaelic Games Association. The redevelopment of that stadium had been part-funded by the government. Moreover, this newly opened Croke Park stadium was full less than a handful of times per year, and these capacity crowds were usually limited to the months of August and September – at the culmination of the GAA season. Within 5 km of Croke Park was a third large capacity stadium, located at Lansdowne Road. This older venue, in need of some redevelopment, catered for the home games of the Irish national rugby and soccer teams. A fourth, 45,000-capacity stadium, within Dublin, was being proposed by the Football Association of Ireland (FAI). All these stadia were to be located in a county of just over 1.1 million people and within a country with a population of less than 4 million people in the 2002 census.

The government's case for a national stadium was somewhat bolstered by an application to co-host, with Scotland, the 2008 UEFA European Football Championships. The FAI officially made the bid, but it was supported by the Irish government, as the bid generated some justification for a new national stadium. The Ireland–Scotland bid was unsuccessful, and the proposed national stadium at Abbotstown was eventually abandoned amid mounting controversy.

The link between stadium (re)development and major international sporting events surfaced a decade later when Ireland unsuccessfully bid to host the 2023 Rugby World Cup finals – with funding guaranteed via the Rugby World Cup 2023 Act, 2017. Linked to the bid was a government grant of €50 million to aid the redevelopment of Pairc ui Chaoimh in

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

Cork. The funding could be justified via the legacy of sporting events. Following the French stadia redevelopment for Euro 2016, the European Union was unlikely to halt the funding on state aid grounds. Moreover, the venue hosted Gaelic games, which meant the investment could be deemed cultural and permitted under article 107(3). In addition, Gaelic games are amateur games, and thereby given special status in article 165. However, the constitution of the GAA stipulates that their venues can be used only for Gaelic games, which would run counter to the clarifications to state aid rules in May 2017. The scale of the redevelopment could not have been justified based on games attendances at the venue in the preceding decades. This was subsequently confirmed when the GAA had to assume control of Pairc ui Chaoimh from its local arm.

It is plausible to suggest that bids to host major international sporting events in Ireland were little more than attempts to justify the public funding of large sporting infrastructure. They also represented governments being pressurized either by sporting organizations or by the electorate to host such events. The interests of the politicians seemed to be aligned with those of the sporting organizations (and possibly those of the electorate).[5] Successful bids did occur in golf: the 2006 Ryder Cup was held in County Kildare and the 2027 event is scheduled to be held in County Limerick.

Although the national stadium at Abbotstown was halted, another controversial capital project in Abbotstown was completed: the National Aquatic Centre. However, the financing of the project, combined with the contracts to run the project, were the subject of public scrutiny. Details on these projects, and public funding given to a national equestrian centre, can be found in Considine, Coffey and Kiely (2004). A favourable interpretation of the difficulties encountered by these large-scale sports infrastructure projects would be that they were of the "teething problems" variety – i.e. the public sector was simply accumulating the expertise necessary to manage investment on such a scale in the sports infrastructure area. It is more difficult to make that case for other capital funding provided by the department with responsibility for sport.

The public funding of other infrastructure projects by the Department of Sport presents greater evidence of government failure. From the beginning, the grants to local sports clubs for infrastructure projects displayed clear indications of political bias. Considine, Coffey and Kiely (2004) document the evidence for the period up to 2004. Considine *et al*. (2008) document the evidence for the period up to 2007. Both papers show how the county that elected the minister with responsibility for sport received the highest per capita allocations. Using a natural experiment approach, the papers examine the allocations before and after changes in the relevant ministers (the relationship also holds for the minister of finance). Econometric evidence is provided in Suiter and O'Malley (2014), where sports funding is one of a range of public expenditures examined, and in Considine and Doran (2016), where the authors find limited evidence in the success of a rule designed to limit political bias.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

There is also evidence that the temporal distribution of sports capital grants funding was influenced by political considerations. Figure 18.3 suggests that a political cycle is evident in the annual allocations. The total amount allocated increased steadily from 1998. It peaks in 2002. This coincides with the first general election since 1997. There is a sharp fall in 2003 before a slight increase in 2004. Elections to the European Parliament and Irish local government took place in 2004. The totals for 2005 and 2006 were slightly below the 2004 level. Another large increase occurred in 2007; the 2007 allocations were the highest for the period. It was also a general election year. Calls for applications by sports clubs to this grant scheme were suspended after 2008 as a result of the financial crisis.

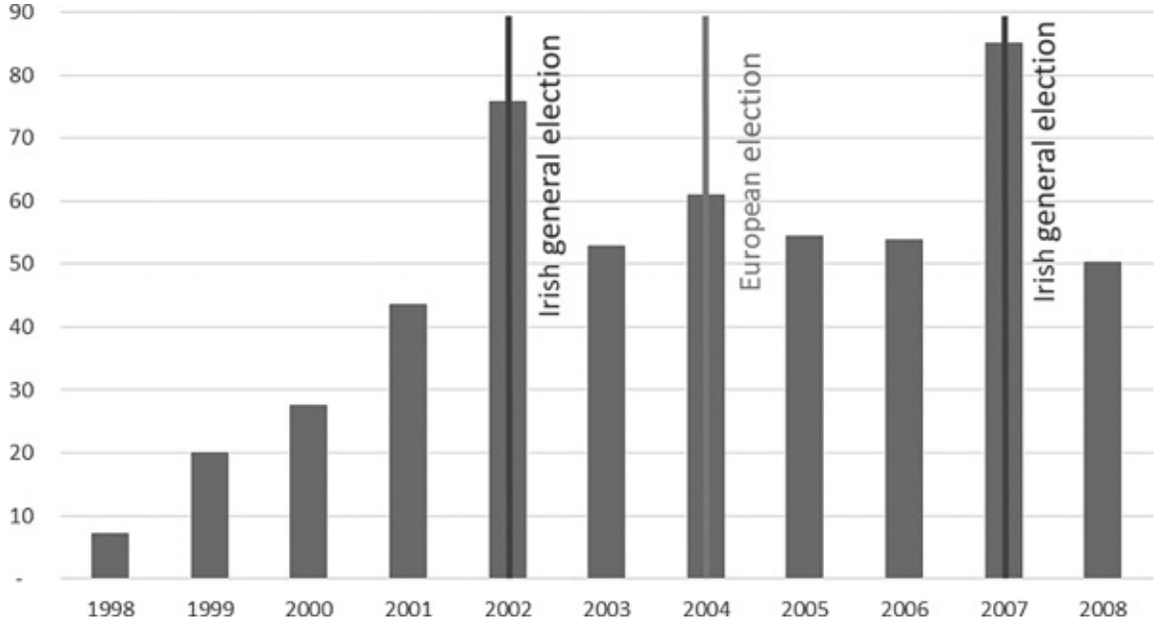


**Figure 18.3** Sports capital grant allocations, Ireland, 1998–2008 (€ millions)

*Source*: Department of Transport, Tourism and Sport.

A note in the government financial accounts for 1998 to 2004 explained how the sports capital grants were funded by the National Lottery. In 2005 this changed to allow for a greater contribution from other exchequer revenue sources. This reflected the fact that the government was struggling to spend the windfall revenues from a booming property market. When the property bubble burst, coinciding with the Great Recession that hit the Irish economy, capital expenditure was slashed and sports capital expenditure declined by more than general government capital expenditure.

Figure 18.4 illustrates the changes in the capital and non-capital funding of sport in Ireland during the twenty-first century. To smooth the very large annual changes, a lagging three-year moving average is used. For example, the 2002 value for capital represents the average of the three annual changes between 1999 and 2000, 2000 and 2001, and 2001 and 2002. The large positive values at the start of the figure represent rapid growth from a very low base. This is in line with data in Figure 18.3.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

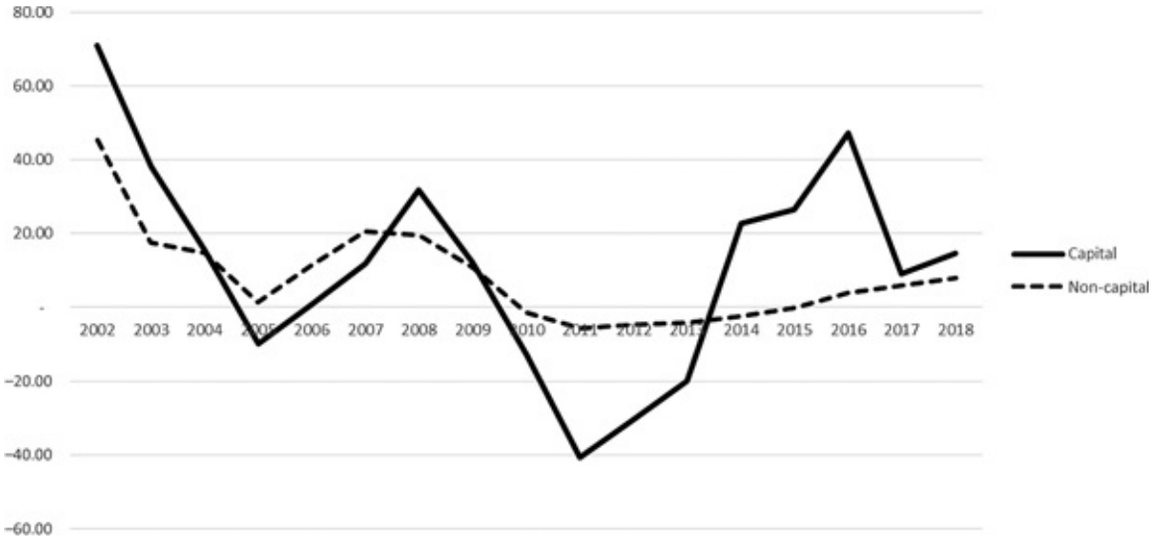


**Figure 18.4** Three-year moving average of annual percentage changes in sport capital and non-capital expenditure, Ireland, 2002–18

*Source*: Revised Estimates for Public Services: Government of Ireland.

Sports capital expenditure is more volatile than non-capital expenditure. This is particularly so in the period since 2010. The peak in 2008 captures the three years of annual changes from 2005. This includes the peak of sports capital grants in 2007 and the redevelopment of Lansdowne Road. Capital expenditure collapsed during the Great Recession. It is only with the return of the sports capital grants in 2014 that the three-year moving average becomes positive.

### 18.4.2 The Great Recession and public funding

The Great Recession also had a significant impact on the non-capital funding of sport, which was primarily channelled through the ISC (later to become Sport Ireland) as a result of the Sport Ireland Act, 2015. Although the scale of the impact is somewhat diminished by comparison with the changes in capital funding, the changes were sizeable. Non-capital funding declined from its 2008 peak to a low point in 2014 before recovering in the subsequent years. However, the 2018 nominal expenditure on non-capital sport was still below the 2008 amount.

It is politically easier to reduce capital funding, because it can be harder to identify, and easier for vested interests to identify with, than capital expenditure forgone. There is a natural "sunset" clause on such funding. Once a capital project is completed, there is a natural break. Proposed future projects can be postponed or cancelled. It is more difficult to reduce non-capital funding. Much of this is used to fund day-to-day activities and ongoing work. Much of it ends up as wages and salaries. Those who receive these payments constitute a group

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

with an interest in the maintenance of the funding: a vested interest group – to use a somewhat pejorative term. In recessionary times the financial interests of this group and the government are somewhat aligned. Any reduction in non-capital funding that produces unemployment is likely to cost the government in unemployment assistance.

The establishment of the ISC also created an agency specifically designed to promote the interests of sport. Government funding of the ISC included funding to commission research. Not surprisingly, this research was uncritical of government policy. For example, it did not highlight the political bias in sports capital funding or the questionable construction of large stadium capacity. When the economy turned downwards, and non-capital expenditure was cut, the commissioned research turned to providing an economic rationale for investment in sport. The result was a major report entitled *Assessment of Economic Impact of Sport in Ireland* (Indecon 2010), produced by Indecon International Economic Consultants in association with the Sports Industry Research Centre, Sheffield Hallam University.[6] It included sentences such as: "For every €100 of government expenditure, the government receives approximately €149 in the form of taxes and other income arising from sport-related economic activity" (Indecon 2010: vi). The implication is clear: if the government spends more on sport, then it will improve the public finances. Government funding reductions after the report was published suggests either that the government was not informed of this research or that it did not believe it.

An update of sorts was published in 2019. "An assessment of the economic benefits of sport in Ireland" (Investec 2019) was produced by Investec Economic Research, commissioned by the Federation of Irish Sport – a representative body for the national governing bodies and the local sports partnerships (with both groups receiving some funding from Sport Ireland). Two key sentences on the relationship between government funding and sport draw on, and add to, the findings in the Indecon report (Investec 2019: 7):

> It has previously been estimated that for every €100 in State investment in sport in Ireland, the Exchequer receives €149 back in taxes. Such a return on investment is clearly very attractive, but recent research by the European Commission suggests that the State may recoup up to €195 in tax revenue for every €100 invested in sport-related activity.

Again, one is left to wonder why the government is not investing more in this money machine. These two sentences are presented in the "Key findings" section. Later in the report, the claims made in these sentences are increasingly qualified. It is also clear that the choices made by the authors portray the return to the public funding of sport in a favourable light. This is to be expected in commissioned work. Moreover, the Investec report is not alone in presenting the contribution of sport to the Irish economy in a favourable light. A

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

range of other commissioned reports have drawn attention to the economic value of the sport administered by the commissioning body. There have been reports on everything from angling to stud fees for stallions. Those commissioned to do the reports have performed admirably in satisfying the needs of their clients – potentially at the cost to the citizens of the state. They have broadened or narrowed the perspective to suit, for example, "sport-related" or "domestic" tourism. They have appealed to particular government objectives as suits, such as "rural economy" or "mental health". And they have appealed to a variety of fiscal multipliers as suits, such as "employment multiplier" and "GDP multiplier". The overall result is a plethora of reports that testify to the economic value of a variety of sports that would be even greater if the government provided more funding. In many cases, the suggestion is that government is passing up a positive investment opportunity.

One of the more interesting features of the Indecon (2010) report arises in the discussion of local government. Like the public funding channelled through Sport Ireland, local authority expenditure is predominately non-capital, and a large proportion consists of wages and salaries. It is part of the wider public sector. As a result, it attracts less attention in the sports economic literature. According to the report, local government contributed approximately 88 per cent of the total from central and local government together. This figure is not inconsistent with the estimates produced in the report for the European Commission (Expert Group on Sustainable Financing of Sport 2012). Recent figures for Ireland in Investec (2019) give roughly similar estimates. This report states that "the annual spend on Sports and Recreation is €452 million, or 78 per cent of total State expenditure". This report is also more transparent on the way it arrives at this figure. Qualifying statements follow, and it is suggested that only half the figure is attributable to sport and recreation: specifically, "Community Sport & Recreation Development", €54 million; "Leisure Facilities", €38 million; and "Outdoor Leisure Areas", €126 million. Central government funding of sport, via the Department of Transport, Tourism and Sport, was €114 million in 2018.

## 18.5 CONCLUSION

Public funding of sport has a long history. The relationship between the two is neatly captured in the title of Andrew Zimbalist's 2015 book *Circus Maximus*. From ancient Rome to the modern state-funded colosseums, political leaders have always funded "sport". How do economists present and explain this phenomenon? A cursory reading of the sports economics literature would suggest that the funding is excessive, and it is explained as the result of sports organizations leveraging their market power. Yet sports policy-makers argue that such funding is needed, and they explain it as being required by the gap between a private and social calculus.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.

This chapter outlines some of the reasons for the differences in perspective. The academic literature in sports economics is a product of the intellectual and economic environment in which the field developed. The free market, and the land of the free, are important determinants. History and geography are important. Public funding of sport, like the public policy on sports betting and sports broadcasting, have a different history either side of the Atlantic. There has traditionally been a greater level of public intervention in Europe, where sport is seen as having an important social function. The sports economics literature is neither ignorant nor dismissive of such arguments. Rather, such arguments are not very prominent.

It is possible to make the argument that recent developments in EU law bring the public funding of sport in the European Union more into line with academic literature than is the case in North America. The business of sport in Europe seems to have greater governance by competition law. In addition, the public funding of sport is subject to state aid rules. The May 2017 revisions to these rules suggest that these were either not strong enough or not implemented appropriately. Evidence from twenty-first-century Ireland shows that there remains a political bias in the public funding of major events and facilities. Whether these rules, or the sports economics literature, further constrain the public funding of sport in Europe will be determined with the passage of time.

---

1. As Stefan Szymanski puts it when describing sports economists who do not make the case for major events: “Here is a roll call of some of the hero-economists who have dispassionately reported the evidence on the impact of major sporting events, without fear or favor, often suffering personal abuse, and frequently denying themselves the opportunity to line their own pockets for the price of what the politicians would like to hear” (Szymanski 2009: 194).
2. An externality occurs when those external to the relevant market transactions are impacted by the transactions. Textbook examples include smoke pollution from production facilities or those who consume tobacco. A public good is one that is non-rivalrous in use and non-excludable. Textbook examples include lighthouses. A merit good is one that the public authorities feel people are underconsuming – possibly because they do not realize the merit in the good. Textbook examples include education and appreciation classes.
3. In turning this perspective upside down, Michael Porter placed the emphasis on the strategy that could be employed by individual organizations. Porter (1980) advised the National Football League on their strategy to fend off a rival league in the 1980s. Some argue that this case illustrated a potential antitrust blind spot in Porter’s thinking (see Fried & Oviatt 1989).
4. For the purposes of this chapter, animal racing is excluded from sport, primarily because this is a chapter about the public funding of sport. Although the Irish government funded animal racing via the Department of Sport for a number of years, it removed the funding on the grounds that it was for an industry rather than for sport. This chapter follows that approach. The sizeable sums involved in animal racing are documented by Butler and Sherman (2009).
5. A list of some of the sportspeople, usually men, who made the transition to political life is documented by Farrell (1971) and McMorrow (2010). The alignment of political and sporting identities in Ireland aids this process. Gaelic games are played by teams that represent their region, e.g. parish or county. Political boundaries are largely organized along county boundaries.
6. The latter institution was also involved in the EU *Study on the Economic Impact of Sport through Sport Satellite Accounts* (European Commission 2018). The economic impact is assessed as being much lower in the EU work.

Copyright © 2021. Agenda Publishing. All rights reserved.

Butler, R. (Ed.). (2021). Advances in sports economics. Agenda Publishing.
Created from liberty on 2023-05-09 20:26:49.